

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer Chair
Ellen Gavin Commissioner
Marshall Johnson Commissioner
Phyllis Reha Commissioner

In the Matter of Northern States ISSUE DATE: JULY 9, 2004
Power Company d/b/a Xcel Energy's DOCKET NO. E,G002/D-04-249
Request for Approval of the Remaining Life ORDER CERTIFYING DEPRECIATION
Depreciation Study for 2004 RATES AND METHODS

PROCEDURAL HISTORY

On February 17, 2004, Northern States Power Company, doing business as Xcel Energy (Xcel Energy or the Company) filed its annual 2004 remaining-life (RL) depreciation study based on its review of depreciation rates under Minnesota Rules, parts 7825.0500-7825.0900. The Energy Division of the Minnesota Department of Commerce (Department) examined the study, including the Company's remaining lives, interim retirement and salvage rates. The Department recommended approval.

No party opposed approval.

The Commission placed and approved this docket on its consent calendar agenda.

FINDINGS AND CONCLUSIONS

The depreciation study submitted by Xcel Energy used the RL technique of straight line depreciation to calculate depreciation accruals, as required by Minnesota Rules, part 7825.0800. The study used accepted methods to determine the RL and interim retirement and salvage rates of the Company's property accounts. The Commission finds the resulting depreciation rates to be reasonable, proper, and adequate under Minnesota Statute section 216B.11 and Minnesota Rules, part 7825.0600.

Xcel Energy proposes that the current remaining lives for all electric and gas production and gas storage facilities remain in effect and be adjusted only for the one-year passage of time except for the following: the Allen S. King Plant, the Riverside Unit 7 Boiler Equipment and Miscellaneous Equipment, and the Sibley and Wescott Production Plants and the Wescott Storage Plant excluding the Vaporizing Equipment.

Xcel Energy reviewed interim retirement rates and salvage rates as a part of their annual depreciation rate review. Based on this review, the Company proposes no changes to interim retirement rates and salvage rates.

Xcel Energy requested to adjust the Allen S. King Plant (King Plant) remaining life based upon its analysis of the pollution-control equipment to be installed in 2007 under the Metropolitan Emissions Reduction Proposal (MERP) in Docket No. E002/M-02-633. The Company's records support the proposed adjustments. Xcel Energy proposed that the RL for the King Plant be increased by six years. The use of a 10-year RL for the King Plant provides an estimated un-recovered asset balance of \$15.1 million at January 1, 2007 which the Company believes will be closer to the estimated remaining amount of plant based on its retirement decisions and the age of the plant.

Xcel Energy also proposed to decrease the RL of the Boiler Equipment account (E312) and the Miscellaneous Equipment account (E316) associated with its Riverside Unit 7 from 10.8 to 5.4 years based on the MERP re-powering plan in 2009. The use of a 5.4 year RL for the Boiler and Miscellaneous Equipment will completely retire the equipment in these two accounts and the Company believes that it will provide a Riverside Unit 7 Plant balance that will be closer to the actual amount of equipment remaining in 2009.

Xcel Energy proposes no change is proposed to the RL of the High Bridge Plant other than the one-year passage of time since the RL will appropriately match the retirement of the plant under MERP.

Additionally, Xcel Energy proposed to increase the RL of its Sibley Production Plant from three to seven years. The Company also proposed to increase the RL of its Wescott Production Plant to ten years. As of January 1, 2004, the RL of the Wescott Production Plant was 4.5 years except for Other Equipment, which was at three years. In addition, Xcel Energy proposes to lengthen the Wescott Storage Plant life to ten years, except for the vaporizing equipment, which has a RL of 24 years. As of January 1, 2004, the RL of the Wescott Storage Plant was three years except for Structures, Gas Holders, and Purification Equipment, which was at 4.5 years. The decision to lengthen the plant lives is based on recent equipment replacements and upgrades, routine maintenance performed and recent inspections at each of the plants.

Based on the Department's review, the changes to the remaining lives, interim retirement and salvage rates are supported by analysis and reasonable. The Commission will approve Xcel Energy's requested service lives, interim retirement and salvage rates, and resulting depreciation rates as proposed.

Based on the Company's proposal, the impact to depreciation expense for 2004 as corrected by the Department is a net decrease of \$1,587,431 (a \$984,477 decrease for the electric utility and a \$602,954 decrease for the gas utility). This decrease reduces depreciation expense for financial statement purposes but does not impact current rates.

Based on the Department's recommendation, the Commission will require a schedule and narrative of

the differences between the electric generation plant lives in its most recent Integrated Resource Plan and the remaining lives in its depreciation petition. Where the lives do not match, the Company should explain the differences for each mismatch.

The depreciation rates and methods certified in this Order are binding on all future rate proceedings and will remain in effect until the next depreciation certification or until otherwise changed by the Commission (Minnesota Rules, part 7825.0900). Specific dollar amounts of

gross plant, depreciation reserve, annual accrual, and dollars to be allowed as additional depreciation are subject to audit, however, and the inclusion of items in this Order for depreciation purposes does not guarantee their inclusion in rate base for ratemaking purposes.

ORDER

1. The Commission certifies the following depreciation rates on the basis of the depreciation petition submitted by Xcel Energy.

Acct. No.	Class of Utility Plant	Remaining Life (Years)	Estimated Future Net Salvage (%)
Electric Utility			
Steam Production			
Black Dog 3 & 4			
E311	Structures & Improvements	28 .0	-20
E312	Boiler Plant Equipment	4 .0	0
E314	Turbogenerators	4 .0	0
E315	Accessory Electric Equipment	4 .0	0
E316	Miscellaneous Power Plant Equipment	4 .0	0
High Bridge			
E311	Structures & Improvements	4 .0	-20
E312	Boiler Plant Equipment	4 .0	0
E314	Turbogenerators	4 .0	0
E315	Accessory Electric Equipment	4 .0	0
E316	Miscellaneous Power Plant Equipment	4 .0	0
Allen S. King			
E311	Structures & Improvements	10 .0	-40
E312	Boiler Plant Equipment	10 .0	0
E314	Turbogenerators	10 .0	0
E315	Accessory Electric Equipment	10 .0	0
E316	Miscellaneous Power Plant Equipment	10 .0	0
Minnesota Valley			
E311	Structures & Improvements	1 .0	-20

E312	Boiler Plant Equipment	1.0	0
E314	Turbogenerators	1.0	0
E315	Accessory Electric Equipment	1.0	0
E316	Miscellaneous Power Plant Equipment	1.0	0
Red Wing			
E311	Structures & Improvements	3.5	-20
E312	Boiler Plant Equipment	3.5	0
E314	Turbogenerators	3.5	0
E315	Accessory Electric Equipment	3.5	0
E316	Miscellaneous Power Plant Equipment	3.5	0
Riverside Unit 7			
E311	Structures & Improvements	10.8	-20
E312	Boiler Plant Equipment	5.4	0
E314	Turbogenerators	10.8	0
E315	Accessory Electric Equipment	10.8	0
E316	Miscellaneous Power Plant Equipment	5.4	0

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Acct. No.	Class of Utility Plant	Remaining Life (Years)	Estimated Future Net Salvage (%)
Riverside Unit 8			
E312	Boiler Plant Equipment	4.9	0
E314	Turbogenerators	4.9	0
E315	Accessory Electric Equipment	4.9	0
E316	Miscellaneous Power Plant Equipment	4.9	0
Sherco I & II			
E311	Structures & Improvements	10.8	-20
E312	Boiler Plant Equipment	10.8	0
E314	Turbogenerators	10.8	0
E315	Accessory Electric Equipment	10.8	0
E316	Miscellaneous Power Plant Equipment	10.8	0
Sherco III			
E311	Structures & Improvements	16.4	-20
E312	Boiler Plant Equipment	16.4	0
E314	Turbogenerators	16.4	0
E315	Accessory Electric Equipment	16.4	0
E316	Miscellaneous Power Plant Equipment	16.4	0
Wilmarth			
E311	Structures & Improvements	3.5	-20

E312 Boiler Plant Equipment 3.5 0
 E314 Turbogenerators 3.5 0
 E315 Accessory Electric Equipment 3.5 0
 E316 Miscellaneous Power Plant Equipment 3.5 0

Nuclear Production

Monticello

E321 Structures & Improvements 6.7 0
 E322 Reactor Plant Equipment 6.7 0
 E323 Turbogenerators 6.7 0
 E324 Accessory Electric Equipment 6.7 0
 E325 Miscellaneous Power Plant Equipment 6.7 0

Prairie Island

E321 Structures & Improvements 10.8 0
 E322 Reactor Plant Equipment 10.8 0
 E323 Turbogenerators 10.8 0
 E324 Accessory Electric Equipment 10.8 0
 E325 Miscellaneous Power Plant Equipment 10.8 0

Prairie Island- Interim Storage Facility

E321 Structures and Improvements 10.8 0

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	Remaining	Estimated	
Acct.	Life	Future Net	
<u>No.</u>	<u>Class of Utility Plant</u>	<u>(Years)</u>	<u>Salvage (%)</u>

Hydro Production

Hennepin Island

E331 Structures & Improvements 28.0 -10
 E332 Reservoirs, Dams, & Waterways 28.0 -15
 E333 Waterwheels, Turbines, & Generators 28.0 5
 E334 Accessory Electric Equipment 28.0 5
 E335 Miscellaneous Power Plant Equipment 28.0 5

Lower Dam

E331 Structures & Improvements 28.0 -10
 E332 Reservoirs, Dams, & Waterways 28.0 -15

Upper Dam

E332 Reservoirs, Dams, & Waterways 28.0 -15
 E335 Miscellaneous Power Plant Equipment 28.0 5

Alliant Tech

E344 Generators 5.8 0

Other Production

Angus C. Anson

E341 Structures & Improvements 15.8 0

E342 Fuel Holders 15.8 0

E344 Generators 15.8 0

E345 Accessory Electric Equipment 15.8 0

E346 Miscellaneous Power Plant Equipment 15.8 0

Black Dog 5

E341 Structures & Improvements 28.0 0

E342 Fuel Holders 28.0 0

E344 Generators 28.0 0

E345 Accessory Electric Equipment 28.0 0

E346 Miscellaneous Power Plant Equipment 28.0 0

Blue Lake

E341 Structures & Improvements 4.0 0

E342 Fuel Holders 4.0 0

E344 Generators 4.0 0

E345 Accessory Electric Equipment 4.0 0

E346 Miscellaneous Power Plant Equipment 4.0 0

Granite City

E341 Structures & Improvements 3.0 0

E342 Fuel Holders 3.0 0

E344 Generators 3.0 0

E345 Accessory Electric Equipment 3.0 0

E346 Miscellaneous Power Plant Equipment 3.0 0

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Acct. No.	Class of Utility Plant	Remaining Life (Years)	Estimated Future Net Salvage (%)
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Inver Hills

E341 Structures & Improvements 4.0 0

E342 Fuel Holders 4.0 0

E344 Generators 4.0 0

E345 Accessory Electric Equipment 4.0 0

E346 Miscellaneous Power Plant Equipment 4.0 0

Key City

E341 Structures & Improvements 3.0 0

E342 Fuel Holders 3.0 0
 E344 Generators 3.0 0
 E345 Accessory Electric Equipment 3.0 0
 E346 Miscellaneous Power Plant Equipment 3.0 0
 United Health Care
 E344 Generators 4.5 0
 United Hospital
 E344 Generators 13.7 0
 West Faribault
 E341 Structures & Improvements 3.0 0
 E342 Fuel Holders 3.0 0
 E344 Generators 3.0 0
 E345 Accessory Electric Equipment 3.0 0
 E346 Miscellaneous Power Plant Equipment 3.0 0

Gas Utility

Gas Production

Maplewood

G305 Structures & Improvements 5.0 -10
 G311 LP Gas Equipment 5.0 15
 G320 Other Equipment 5.0 10

Sibley

G305 Structures & Improvements 7.0 -10
 G311 LP Gas Equipment 7.0 15
 G320 Other Equipment 7.0 10

Wescott

G305 Structures & Improvements 10.0 -10
 G311 LP Gas Equipment 10.0 10
 G320 Other Equipment 10.0 0

Grand Forks

G305 Structures & Improvements 4.0 -10
 G311 LP Gas Equipment 4.0 10
 G320 Other Equipment 4.0 0

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	Remaining	Estimated	
Acct.	Life	Future Net	
<u>No.</u>	<u>Class of Utility Plant</u>	<u>(Years)</u>	<u>Salvage (%)</u>

Gas Storage

Wescott

G361	Structures & Improvements	10 .0	-10
G362	Gas Holders	10 .0	5
G363	Purification Equipment	10 .0	5
G363.1	Liquefaction Equipment	10 .0	5
G363.2	Vaporizing Equipment	24 .0	5
G363.3	Compressor Equipment	10 .0	10
G363.4	Measuring & Regulating Equipment	10 .0	0
G363.5	Other Equipment	10 .0	0

2. Accruals to the depreciation reserve for each account shall be calculated by taking the original cost of depreciable property in the account, subtracting its estimated future net salvage and its associated depreciation reserves, and dividing the difference by the estimated RL of the surviving plant in the account.
3. In the event any class of plant shall become fully depreciated by the use of these rates, then no further depreciation accrual for such class of plant shall be made.
4. By February 17, 2005, the Company shall file its next five-year depreciation study based on its review of the remaining lives and interim retirement and salvage rates. The Company shall use plant and reserve balances as of December 31, 2004 to estimate 2005 accruals.
5. Xcel Energy shall provide in its next RL petition a schedule and narrative of the differences between the electric generation plant lives in its most recent Integrated Resource Plan and the electric generation plant lives in its RL depreciation petition. Where the lives do not match, the Company should explain the differences for each mismatch.
6. The RLs and interim retirement and salvage rates certified by this Order are effective January 1, 2004.

The Commission agrees with and adopts the recommendations of the Department of Commerce which are attached and hereby incorporated in the Order.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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